

# UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT



---

## **FINAL REPORT**

*for*

**Contract PCE-I-00-98-00013-00, Task Order 06**

### **Technical Assistance Project for Customs Related Activities under the Africa Trade and Investment Policy Program**

Task Order Start Date: October 1, 2000

Task Order End Date: December 31, 2002

Report Submitted by Booz Allen Hamilton, 8283 Greensboro Drive, McLean, Virginia 22102

Contact Person: Norm Kirsch, Program Manager, Telephone (703) 902-5896, Facsimile (703) 917-2379,  
email [kirsch\\_norm@bah.com](mailto:kirsch_norm@bah.com)

---

July 31, 2003

**Booz | Allen | Hamilton**

delivering results that endure

USAID/Washington CTO: Dr. Yoon Joo Lee  
USAID/Washington Project Officer: Ms. Lisa Ortiz  
USAID/Washington CO: Mr. Michael Gushue

## TABLE OF CONTENTS

<b>Introduction.....</b>	<b>1</b>
<b>Activity 1 WAEMU Diagnostic Assessment.....</b>	<b>1</b>
<b>Activity 2 Diagnostic and Recommendations for the Regional Bond Guarantee Scheme.....</b>	<b>2</b>
<b>Activity 3 RCBG Rules and Procedures.....</b>	<b>4</b>
<b>Activity 4 RCBG Implementation Workshop.....</b>	<b>7</b>
<b>Activity 5 COMESA Customs Reform Workshops.....</b>	<b>8</b>
<b>Results.....</b>	<b>8</b>
<b>Recommended Future Activities.....</b>	<b>9</b>

### **Appendices:**

**Appendix A: Sureties Operations Workshop**

**Appendix B: Regional Customs Bond Guarantee Scheme Workshop**

**Appendix C: RCTG System Design: Carriers Workshop**

## **Introduction**

The United States Agency for International Development (USAID) retained Booz Allen Hamilton to provide technical assistance for customs related activities under the Africa Trade and Investment Policy Program (ATRIP). The primary objective of the technical assistance was to increase efficiency and transparency in customs processing through workshops, training, and the development of country-specific plans of action. The task order envisioned five separate activities, and these activities were subsequently modified in accordance with USAID's approval as follows:

- Revision and clarification of the Statement of Work (SOW) for Activities 3, 4, and 5 (Contract Sub-Parts 3, 4, and 5), based on COMESA's redefinition of technical assistance priorities with concurrence of the USAID program office.
- Transfer of the unused participant travel budget from Activity 2 (as reflected in Amendment No.1) to Activities 4 and 5 (Contract Sub-Parts 4 and 5) to enable sponsorship of workshop delegates for RCBG implementation and risk management training, respectively.
- Reallocation of Level of Effort (LOE) accordingly, to reflect the revised SOW, technical expertise, and performance schedule within the existing contract budget ceiling.

No additional funding was required to accomplish the revised SOW. All activities were completed within the contract's period of performance (through December 31, 2002).

What follows is the description of Booz Allen's technical assistance with respect to each activity under this task order.

### **Activity 1 WAEMU Diagnostic Assessment**

The first activity under the task order was to conduct a diagnostic assessment of the West African Economic and Monetary Union (WAEMU). The purpose of the assessment was primarily to:

- Provide an analysis of the existing customs framework based on a three-country case study of Burkina Faso, Mali and Senegal
- Review current initiatives to modernize and harmonize customs processes
- Assess compliance of WAEMU customs procedures with World Trade Organization (WTO) and World Customs Organization (WCO) standards in the areas of goods classification, valuation, declaration, inspection and clearance
- Develop a set of recommendations along with an action plan for implementation based on the assessment findings.

A team of three experts traveled during the summer of 2001 to West Africa and produced a 66-page report, which was submitted to USAID. The team's report outlined a set of short and medium term recommendations which included the following:

Within a six-month time frame: (1) amendments to the draft WAEMU Customs Code were to have been made; (2) a WAEMU sponsored Memorandum of Understanding for anti-smuggling and trade facilitation cooperation procedures among the region's enforcement agencies was to have been elaborated; (3) training courses on customs technical issues such as the WTO Customs Valuation, Rules of Origin, the Harmonized Tariff System, Transit procedures, enforcement techniques, commercial fraud detection, intelligence gathering, risk management, and post clearance audit were to be considered; (4) the development of a common training curriculum for all customs administration's personnel was to have taken place; and, (5) the development of a WAEMU decree regarding the phasing out of pre-shipment inspections over two years should also have taken place.

Medium term recommendations included: (1) the development of a regional bond guarantee scheme under the auspices of WAEMU, ECOWAS (Economic Community of West African States), and West Africa's financial sector (insurance and banking); (2) the development of a WAEMU and/or ECOWAS decree for the creation of a Regional Customs Training Center and regional computer processing center to handle in-transit customs declaration (in association with the ECOWAS computer center); (3) the creation of in-transit trade corridors; (4) the development of specific transport and telecommunications infrastructure at major inland border crossing points; (5) the development of a single regional computerized declaration system under the leadership of ECOWAS or WAEMU; and, (6) the development of a common pay system to harmonize how customs agents are remunerated with an emphasis on a performance-based pay structure only partially linked to seizure and fine activities.

## **Activity 2 Diagnostic and Recommendations for the Regional Bond Guarantee Scheme**

One of the stated strategic objectives of COMESA (the Common Market for Eastern and Southern Africa) is greater regional economic integration through increased harmonization of laws and regulations on trade and customs procedures. Under Activity 2, Booz Allen was to provide technical advisory and workshop facilitation support for stakeholder meetings on COMESA's Regional Customs Bond Guarantee (RCBG) Scheme. COMESA organized two-day stakeholder workshops in Mangochi, Malawi and Nairobi, Kenya (April 24-25, 2002 and May 2-3, 2002, respectively) to review the RCBG framework and build general consensus about the Scheme's implementation requirements. Delegates comprised customs administration, freight-forwarding agents and insurance industry representatives from the 20 COMESA states,

as well as invited participants from the Southern Africa Development Community (SADC) region.

Although a number of years have passed since COMESA Heads of States signed and endorsed the RCBG Agreement, its ratification and implementation have been constrained by the absence of detailed institutional structures, and operational mechanisms and methodologies that national governments require. To begin to address this concern, the Booz Allen team outlined a preliminary institutional and operational framework for COMESA's RCBG scheme, based on best practice standards, which were presented at both the Malawi and Kenya workshops. This presentation provided delegates with an outline of the implementation process during RCBG governance, customs administration, and transit operations stages.

In another presentation, Booz Allen discussed the IRU and TIR Carnets conventions as examples of successful regional transit administration strategies, to offer lessons learned that could be beneficial to the final design of RCBG and its implementation. In addition to the overview of the implementation roles and responsibilities of IRU and TIR associations in administration of an advanced regional trade facilitation system, the presentation was particularly valuable in delineating the movement and processing of transit documentation through the TIR Carnet system. Our discussion of the operations and obligations of the international guarantors and the authority of customs administrations, under TIR, gave delegates a credible operational framework for considering the benefits of a fully implemented RCBG scheme.

An important outcome from the stakeholder workshops was firm consensus that (1) the RCBG scheme was a viable trade facilitation mechanism for the COMESA region; and (2) the Scheme's detailed operational requirements should be expeditiously articulated and finalized for review by member states to enable RCBG's expeditious implementation. Recommendations from both workshops culminated in "next step" RCBG implementation development priorities that entailed:

- Defining the constitution and working practices for the National Sureties to include all interested parties (e.g., banks, guarantee associations, and insurance companies)
- Harmonization of all RCBG working documents to establish a framework for preparing a cohesive *modus operandi* to guide regional and national administration
- Development of a customs operations manual comprising details on the systems, procedures, and standards for executing the efficient transit administration processes subsumed in RCBG
- Conducting further stakeholder consultation at both the regional and national levels to build capacity to implement the RCBG scheme

- Introduction of public awareness and public education campaigns throughout the COMESA region to promote the streamlined operations of integrated transit under RCBG, and to reinforce new systems and procedures.

At the conclusion of each workshop, Booz Allen prepared a technical report summarizing issues raised during the meetings, as well as the advisory recommendations of our consultants on processes and practices to formally clarify the RCBG scheme and its implementation strategy. COMESA also asked Booz Allen to prepare an executive summary that could be presented to senior customs officials and ministerial committees. Our executive summary report clarified and consolidated key technical issues discussed during the workshops, in the context of a fully operational RCBG scheme and highlighted the resultant recommendations for the implementation phase, and next step action planning. For more details, please refer to the Technical Report on the COMESA Regional Customs Bond Guarantee Scheme Stakeholders Workshops for the Nairobi, Kenya and Mangochi, Malawi programs, as well as the Regional Customs Bond Guarantee Scheme: Executive Summary of Programme Framework, Implementation Recommendations, and Action Plan.

All draft reports were submitted to COMESA in mid-May 2002 and were finalized with client feedback on May 22, 2002. The two workshop technical reports and the executive summary were transmitted to USAID/Washington and USAID/RED SO/ESA on May 30, 2002, during the wrap-up of ATRIP Activity 2.

### **Activity 3 RCBG Rules and Procedures**

Per agreement between USAID/Bamako and USAID/Washington, the WAEMU advisory support in the form of the Computerization of Customs Processes and Procedures task was eliminated from the Booz Allen scope of work. Coordination on the WAEMU technical assistance had not culminated in a viable scope of work; consequently, the resources under Activity 3 were initially redirected to technical assistance to WAEMU but were eventually redirected towards COMESA RCBG support.

Jean Harman, USAID/Bamako, issued the statement of work to Booz Allen for Activity 3 on May 8, 2002. In the background section, the task is described as assistance to facilitate completion of harmonization of WAEMU and ECOWAS documentation and tariff schedules. Based on this general description, Booz Allen started to work with USAID/Bamako, which oversaw WAEMU initiatives, to clarify the specific task requirements.

Booz Allen also met with Juan Buttari, USAID/Washington, on May 17, 2002 for a briefing on additional SOW information, from his recent discussions with Jean Harman regarding implementation of Activity 3. As discussed by Mr. Buttari, the task had two

components: (1) combining or assembling the existing tariff schedules for the ECOWAS and WAEMU regions into a single schedule, based on the WAEMU structure; and, (2) drafting a preliminary “transit document” that could represent the harmonized requirements for both ECOWAS and WAEMU. USAID estimated the two-activity component would require a four to six week performance period. With this further clarification on the scope of work, Booz Allen agreed to prepare a brief assessment of the implementation requirements for both components, and to suggest a proposed strategy for moving forward, including preparing a contract amendment, as applicable, to accommodate the revised scope of work.

Since a key Mission objective was to work-out the fusion of the ECOWAS and WAEMU documentation, and ensure uniformity between the English and French versions, Booz Allen conducted a review of sample schedules and comparable international models to recommend an appropriate strategy. Our review of WAEMU and ECOWAS schedules such as Article 25 (minerals) indicated complete compatibility from the perspective of classification level and details, as well as definition. Booz Allen’s discussions with ECOWAS confirmed that the two tariff schedules were congruent at the eight-digit level, although WAEMU had added a two-digit extension to enable countries to further classify products.

Our review of representative international models such as the Canada Customs and Revenue Agency revealed that the standard approach was to maintain a separate documents website for each language. Booz Allen suggested that consistent with best practices, the ECOWAS/WAEMU harmonized documents would simply be precisely translated and stored in a website that enabled users to access specific chapters in the desired language. Accordingly, Booz Allen recommended that cross-referencing was not required because all details should be consistently translated into English and French. Since no further technical assistance was needed, Activity 3 was amended.

As a part of Activity 3, as amended, Booz Allen assisted COMESA to define detailed rules and procedures for the operation of the RCBG activity. The consultant assisted the COMESA Secretariat to delineate all of the requirements for performing the customs administration, national surety administration, and transit facilitation functions during implementation of RCBG. These standards were converted into a draft operations manual that outlined the RCBG implementation requirements throughout the trade facilitation cycle.

The field assignment for this activity was conducted during the period of August 19, 2002 through September 13, 2002. The draft Rules and Procedures Manual was completed September 19, 2002 and the Inter-Surety Agreement draft was completed September 27, 2002.

COMESA's Regional Customs Bond Guarantee (RCBG) program was designed to facilitate the efficient movement of goods throughout the trade region under a system of secured seals and vehicles, standardized declaration documents, and a reliable guarantee mechanism that protects the interests of customs, financiers, and transitors. The Rules and Procedures Manual was the next step in the RCBG implementation cycle. The Manual specified the institutional structures, operations mechanisms and methodologies to be employed in the implementation of RCBG. In addition to best practices on regional transit integration, the Manual was designed to reflect key stakeholder technical advice and guidance expressed during workshops, working group committees, and follow-up interviews to ensure the practical application of RCBG rules and procedures.

The team organized meetings with the Kenya Bankers Association, Standard Chartered Bank, Barclays Bank, ZEP-RE PTA Reinsurance Company, the Association of Kenya Insurers, Blue Shield Insurance Company Limited, Intra Africa Assurance Company Limited, and the Kenya Reinsurance Corporation Ltd. to discuss critical design issues such as national surety administration of claim settlement on behalf of local and regional primary sureties; surety administration costs; and capitalization of the guarantee finance pool. The overall objective of these technical meetings was to inform the design of a preliminary financial arrangement strategy to accommodate operational requirements for the insurance and banking sectors, as adapted to support RCTG implementation.

The purpose of the technical meetings with the Freight-Forwarding Association of Zambia, Kenya International Freight and Warehousing Association - KIFWE, and the Federation of Clearing and Forwarding Associations of Southern Africa was to discuss the practical application of core RCBG transit facilitation procedures including issuance and endorsement of the RCTG Voucher, document transfer, and termination of the transit process. Strategies for reducing high collateral requirements to secure guarantees was another critical issue in the freight-forwarding meetings.

Regional customs and transport expertise was integrated into the operational design through technical discussion with the Kenya Revenue Authority, Zambia Revenue Authority, and RAPID/RCSA USAID consultant advisors Theo Lyimbo (a former senior customs officer in Tanzania) and Severin Kaombwe (one of the authors of the Yellow Card system, which serves as the administrative framework for RCBG).

The RCBG operations manual was developed under the supervision of the COMESA Secretariat with the collaboration of the key stakeholders. The rules and procedures established in the Manual were based on and derived their legal authority from the COMESA Protocol on Transit Trade and Transit Facilities and the COMESA Customs Bond Guarantee Agreement. The financial aspects of the RCBG system were modeled on the COMESA Yellow Card scheme.



The Manual contains the following sections: the Preamble, Definitions, RCBG System Design Framework, Customs Administration Procedures, Sureties and Guarantees Procedures, Carriers Procedures, and COMESA Governance. It also includes RCBG Voucher and Certificate of Guarantee specimen documents – designed specifically for the RCBG system, and flow diagrams of the procedures and operations for customs, the chain of surety, and carriers throughout the RCBG transit process. The draft manual is an 80-page document.

The Inter-Surety Agreement defines the rights and obligations of national sureties in implementation of the RCBG financial arrangements. The Agreement takes into account the procedures and modalities adopted in the rules and procedures manual implementing the Customs Bond Guarantee Agreement.

The modalities required for regional administration of the financial aspects of RCBG transit guarantees are established in Articles 1 – 15 of the Inter-Surety Agreement, which contractually define the performance standards for the Council Of Surety, Technical Management Committee, Manager, and Guarantee Finance Pool, as well as guidelines for production and issuance of guarantees, claims procedures, disputes resolutions, and withdrawal and termination of membership.

A draft Inter-Surety Agreement was developed to establish the rights and obligations of all key actors in the financial administration of RCBG. Executive-level presentations were prepared by the consultants to introduce the RCBG operating modalities to COMESA managers (See Appendix A).

#### **Activity 4 RCBG Implementation Workshop**

The RCBG Implementation Workshop replaced the original Customs Valuation Training (See Appendix B). The revised scope of work intended to advance development of the RCBG operating modalities through further consultation with regional stakeholders on the draft implementation requirements for customs administration, national sureties, and transit facilitators, as developed under Activity 3 (rules and procedures manual). Approximately 40 workshop delegates (stakeholders) were sponsored under this RCBG implementation support activity, including the costs associated with their regional travel. The unused Activity 2 funding for workshop participant travel was transferred to Activity 4 for the implementation workshop.

Based on this workshop, Booz Allen updated and revised the draft RCBG rules and procedures manual and Inter-Surety Agreement, under COMESA's direction, with technical feedback provided by stakeholders.

## **Activity 5 COMESA Customs Reform Workshops**

Booz Allen prepared a draft program for the Risk Management for Trade Compliance Workshop that was planned for October 31 – November 2, 2002. Per discussions with COMESA, the workshop was designed to introduce two target audiences – customs administrations and the trade community – to risk management strategies and techniques that would improve trade facilitation throughout the region. The three-day workshop was intended to help the Customs Administrations and the trade community (i.e., importers and exporters, freight-forwarder associations, teamsters unions, international haulage associations) understand the risk management process from actual examples that have been successfully applied in other countries (See Appendix C).

Two simultaneous workshops – customs and trade focuses – were conducted for the initial two-day period. The topics of risk management from the continuous cycle of collecting data and information, analyzing and assessing risk, prescribing actions and tracking and reporting the results were presented from the perspective of both target audiences. The third day combined the two groups in sessions that provided the opportunity for customs and the trade community to develop action plans for building effective partnerships and collaboration that would serve to improve the identification and management of risk – and ultimately improve the capacity for trade conducted in COMESA countries. The final result of the third day was intended to foster the beginnings of a partnership between customs administrations and the international trade community that will profoundly change how international trade is conducted in the COMESA countries.

The preliminary workshop program and agenda for the three-day workshop was reviewed with COMESA during the September 2002 field assignment.

## **Results**

Booz Allen's technical assistance has helped COMESA achieve member-state acceptance of preliminary operational guidelines and proposed implementation strategy, including plans for harmonizing customs processes and documentation, coordination of customs authority activities, and the chain of national sureties. Other key results include:

- Integration of the banking and financial sector into the national surety model to provide greater opportunity for wide-spread adoption and implementation of RCBG

- Executive-level support and endorsement of pilot program development, for target transit corridors, to launch RCBG
- Regional and national training plans to build human and institutional capacity to implement customs reforms, including training-of-trainer programs to ensure the sustainability
- Pro-active and strategic collaboration between COMESA, customs authorities, and stakeholder partners representative of the trader and transit facilitator community.

This project illustrates the importance of supporting a region-wide initiative of reforms to facilitate the integration and harmonization of national policies and procedures, under a single operational framework, to streamline trade between neighboring countries. Extensive technical assistance at the design and implementation phases demonstrated a sustainable approach that will provide increased regional trade. Technical leadership throughout the region was achieved with systematic and standardized training on best practices. This model also illustrates the importance of creating effective partnerships between customs administrations and the trade community to ensure successful execution of reforms.

### **Recommended Future Activities: A Proposal for USAID Support**

The COMESA Free Trade Area (FTA) was launched in October 2000. The FTA envisions the elimination of tariff and non-tariff barriers on goods and services produced in member states. Financial services, including insurance, are covered under the FTA. To achieve free trade in insurance services, member countries will have to deepen their cooperation in the sector. In view of this, the COMESA Secretariat has initiated a program on the Cooperation and Integration of Insurance Services in the region. The Twelfth Meeting of the Council of Ministers in October 2001 endorsed this framework.

The program seeks to achieve the following strategic objectives:

- Reduce barriers to broadened participation in the regional market
- Strengthen insurance institutions and the industry
- Increase access to regional financial services
- Establish regional policies, regulatory frameworks, and harmonized standards.

The ultimate objective of the program is to achieve a single regional insurance market under the following three-activity program.

Activity 1. Removal of restrictions and prohibitions on cross border trade in insurance services, which encompasses:

- Identification of barriers for cross border trade in insurance services in the region to enable consumers to buy insurance services in other member states across the region
- Establishing a single licensing system to enable insurance businesses to provide services anywhere in the region by opening agencies or branches in member states
- Protection of policyholders through the creation of regional service standards
- Reduction of unfair competition risk between insurance businesses.

Activity 2. Standardization and harmonization of legal and regulatory dispositions related to insurance and reinsurance operations in the COMESA region through:

- Analysis of national policies and regulatory frameworks to define a cohesive strategy for the region
- Establishment of uniform operational and technical standards.

Activity 3. Formation of a COMESA regional insurance bureau or institution for coordination and monitoring among member States to ensure:

- Regulatory compliance
- Performance monitoring
- Consumer advocacy.

The expected results of these activities are:

- Access to large single regional market
- Increased competition (within different national markets)
- Creation of wider choice of products for the public
- Improved quality of insurance services
- Lower prices
- Increased retention capacity in the region
- Strengthening of the overall insurance industry
- Facilitation of the implementation of RCBG and other regional trade efforts to achieve greater economic integration among COMESA member states.

---

---

# Appendices

---

---

---

# **Appendix A: Sureties Operations Workshop**

---

# RCTG SYSTEM TECHNICAL EXPERTS WORKSHOP

## *Sureties Operations*



# RCTG System: Sureties

- ▶ ***How does the Surety System work?***
- ▶ The Chain of Sureties is composed of:
  - Primary Sureties
  - National Sureties
  - Council of Surety
  - Customs Transit Guarantee Pool



# RCTG System: Sureties

## ► Primary Sureties

- Financial institutions that issue RCTGs to principals (clearing agents, freight forwarders, carriers, importers, exporters).
- May be banks, insurance companies, or other approved financial institutions
- Must meet 3 criteria:
  - Authorized to do business in RCTG member state
  - Recommended by National Surety
  - Approved by Central Guarantee Office

# RCTG System: Sureties

- ▶ Primary Sureties (continued)
  - Issue RCTGs to qualified applicants and notify CGO of issuance
  - Maintain records of RCTGs issued
    - Certificate
    - Counterfoils
    - Foils
  - Responsible for paying claims against RCTG up to first tier limit
  - Contribute capital to Customs Transit Guarantee Pool
  - Participate in Counsel of Surety through their National Surety

# RCTG System: Sureties

## ► National Sureties

- Responsible for administration of the fiscal aspects of the RCTG System in the National Surety's country
- Coordinate with other National Sureties
- Normally association of Primary Sureties but may be single Primary Surety
- Obtain RCTGs from COMESA, maintain security of those forms, and provide to Primary Sureties for their use
- Receive RCTG foils from Central Transit Office after transit guarantee has been relinquished
  - Forward foils for guarantees opened in another country to that National Surety
  - Maintain foils opened in its country until guarantee is finally acquitted

# RCTG System: Sureties

## ► National Sureties (continued)

### – Processing of Claims:

- Claim against a RCTG presented by the CTO to the National Surety in the RCTG member state in which claim arises
- National Surety pays claim
- If Primary Surety issuing the RCTG is in the same state, the National Surety obtains reimbursement from the Primary Surety up to the first tier limit. Amounts over the first tier limit are reimbursed from the Customs Transit Guarantee Pool
- If the Primary Surety issuing the RCTG is in another state, the National Surety obtains reimbursement from the National Surety of that state

# RCTG System: Sureties

## ► Council of Surety

- Members are the National Sureties of all RCTG member states
- Created by an Inter-Surety Agreement
- Supreme body responsible for coordination and supervision of the RCTG System, Customs Transit Guarantee Pool and operations of National Sureties
- Functions:
  - Elects members of Technical Committee
  - Elects Chairman of Council of Surety
  - Appoints Manager of Customs Transit Guarantee Pool (optional)
  - Establishes excess limit of payment of claims to be settled through the Customs Transit Guarantee Pool
  - Receives annual reports of Manager through Technical Committee

# RCTG System: Sureties

- ▶ Council of Surety (continued)
  - Functions of Council of Surety (continued)
    - Approves annual audited accounts of Customs Transit Guarantee Pool
    - Deals with defaulting members
    - Amends the Inter-Surety Agreement
    - Approves appoint of external auditors

# RCTG System: Sureties

## ► Technical Committee

- Body of the Council of Surety responsible for day-to-day management
- Comprised of three National Surety members, the Chair of the Council, a COMESA representative and the Manager
- Functions
  - Manage Customs Transit Guarantee Pool
  - Make recommendations to Council of Surety on management policy

# RCTG System: Sureties

## ► Technical Committee (continued)

### — Functions (continued):

- Make recommendations to Council on excess limit of payment claims to be settled through the Customs Transit Guarantee Pool
- Make recommendations on appointment of Manager
- Recommend external auditors and review their reports
- Determine general underwriting policies
- Resolve disputes between National Sureties
- Establish capital contributions
- Examine annual accounts and determining banking policy



# RCTG System: Sureties

## ► Management Agreement and Manager

- The Management Agreement may appoint a professional Manager who acts on behalf of the Council of Surety and the Technical Committee in settling all claims and administering the Customs Transit Guarantee Pool
- Responsibilities:
  - Accept business
  - Manage the Pool
  - Keep accounts and registers of the Pool
  - Provide clearing services for payment of claims (above tier one)

# RCTG System: Sureties

## ► Manager (continued)

### – Responsibilities (continued):

- Initiate any necessary administrative or legal action
- Submit monthly detailed reports on operation of Customs Transit Guarantee Pool to the Committee
- Carry out all other duties assigned by the Committee

## ► Customs Transit Guarantee Pool

- Settlement mechanism for the RCTG Program for claims in excess of the limit determined by the Council
- Central clearing mechanism for claims above tier 1

# RCTG System: Sureties

## ► Customs Transit Guarantee Pool

### – Capital Subscription

- All primary sureties shall subscribe to the Pool through their National Surety
- Subscription amounts shall be determined by the Committee
- Pool capacity shall be the aggregate subscribed capacity of all National Sureties
- Primary Sureties issuing RCTGs shall cede a specified percent of the premium received to the Pool through the National Sureties

# RCTG System: Sureties

## ► Claims Procedures

### – Notification:

- The National Surety in the country where a claim is made shall receive all claim notifications from the CTO
- The issuing Primary Surety and its National Surety will be promptly notified of the claim

### – The National Surety will promptly investigate the claim as follows:

- Check whether the RCTG in question is an original and has been correctly issued, signed and stamped

# RCTG System: Sureties

## ► Claims Procedures (continued)

### — Verification (continued):

- Verify issuance of RCTG
- Record details of claim
- Check stamped counterfoils
- Review returned foils to ascertain whether proof exists that goods left country
- Determine whether claim is asserted with statute of limitations
- Obtain any other relevant evidence

# RCTG System: Sureties (continued)

## Claims (continued)

- Acceptance and payment of claims
  - If claim is substantiated, National Surety pays claim in full
- 
- National Surety is reimbursed in full by the issuing Primary Surety's National Surety
  - The Primary Surety's National Surety obtains reimbursement from the Primary Surety up to the first tier limit and from the Customs Transit Guarantee Pool for any excess

# RCTG System: Sureties

## ► Claims (continued)

### – Rejection of claims:

- If claim is not substantiated the National Surety shall reject it in writing and provide reasons for the rejection
- The CTO shall have an opportunity to respond in writing to the rejection, giving reasons why the claim is valid
- The National Surety shall reply in writing to the CTO's answer, giving reasons for accepting or rejecting the CTO's rationale and evidence
- Disputes between a CTO and National Surety will be resolved by arbitration

---

## **Appendix B: Regional Customs Bond Guarantee Scheme Workshop**

---



# **Regional Customs Bond Guarantee (RCBG) Scheme**



# Regional Customs (*Bond*) Transit Guarantee (RCTG) Scheme

What is the COMESA Regional Customs Transit Guarantee (RCTG) Scheme?

- ▶ It is a customs transit regime designed to facilitate the movement of goods under Customs seals throughout the COMESA region; and to provide the required customs security and guarantee to the transit countries.

# Regional Customs Transit Guarantee System

RCBG/RCTG was introduced in order to:

- ▶ Address the difficulties experienced by traders and transporter under the current nationally executed bond system and offer customs authorities adequate security. The difficulties experienced includes:
  - high cost of raising Customs bond at each and every border post,
  - time consuming and costly procedures; and
  - ties up a huge sum of money by way of collateral, and
  - revenue leakage
- ▶ Facilitate trade and transport in the region.

# Regional Customs Transit Guarantee System

- ▶ The establishment of the RCTG scheme is part of the COMESA programme of removing tariff and non-tariff barriers.
- ▶ Hence the introduction of the RCTG scheme is an integral part of the COMESA integration process.

## Background

- ▶ The Customs Bond Guarantee Agreement was signed in 1990. However the agreement has not secured the required minimum number of ratification.
- ▶ Member countries who have ratified the Agreement are Ethiopia, Sudan, Uganda and Zimbabwe.
- ▶ The reasons for the limited ratification include:
  - the institutional structures & operational mechanisms of the scheme were not worked out, and
  - lack of understanding on how the system would address the problems experienced in the nationally operated transit system

## Background

- ▶ Therefore, a Working Group of financial institutions was set-up in 1999 pursuant to the decision of the 7th meeting of Council of Ministers, to develop the mode of implementation for RCTG.

## Recent Developments

- ▶ The Working Group developed a modalities of implementation, by proposing institutional structure and operational mechanism in line similar to the Yellow Card Scheme.
- ▶ The modalities were developed taking into account:
  - the TIR System,
  - the Yellow Card Scheme experience,
  - the existing practice of Nationally executed bond system, and
  - stakeholders view and comments.

## Recent Developments

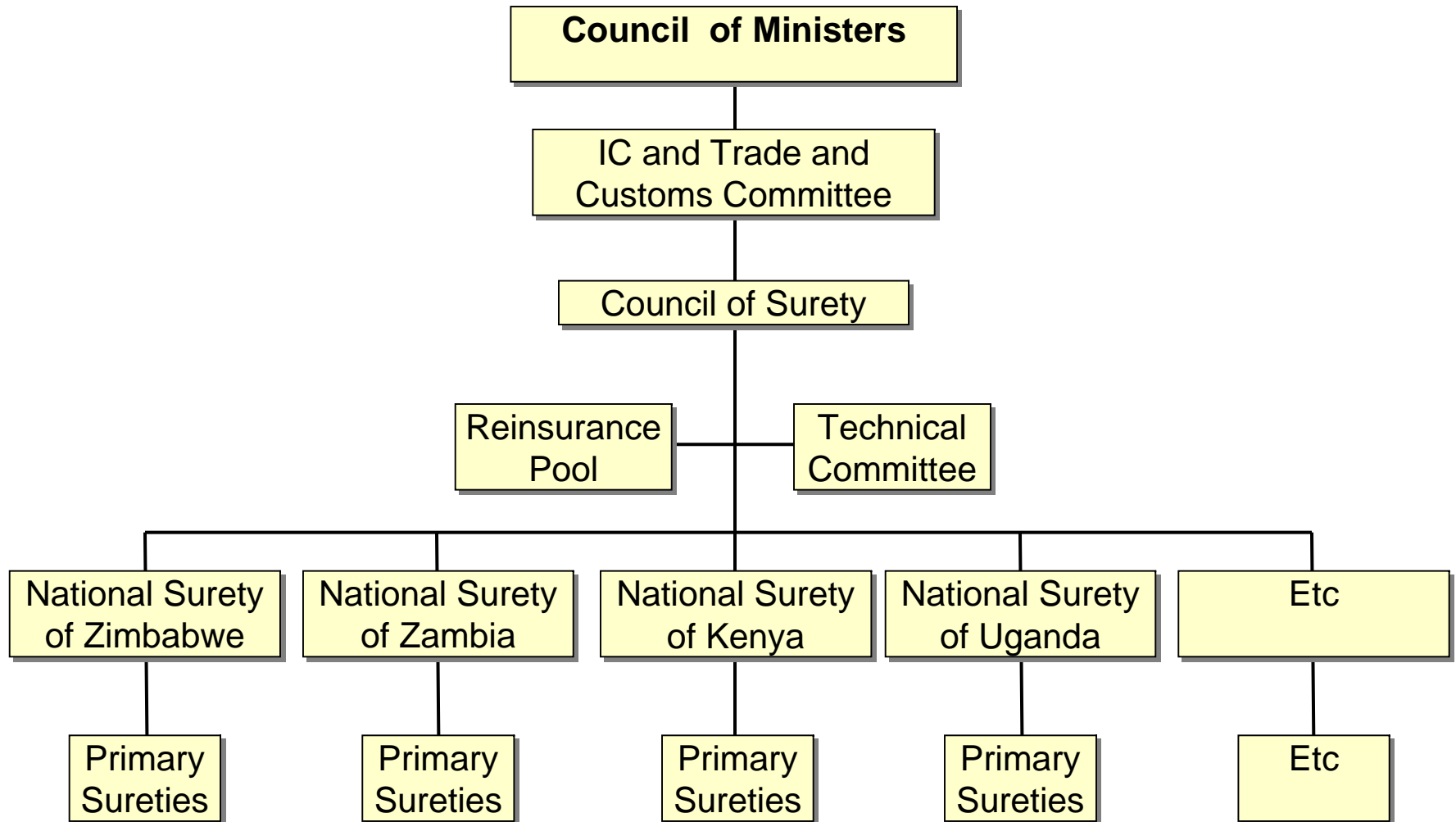
- ▶ The proposed modalities of implementation were considered by stakeholder workshops held in Malawi and Kenya in April and May 2002.
- ▶ The proposal was also presented and considered in several national workshops, including in Burundi, Rwanda and DRC.



## Legal, Technical & Operations Issues Considered by Stakeholders

- ▶ customs laws/regulations and practices of Customs Administration in member states;
- ▶ rules, regulations, practices and operations of Clearing Agents, Freight Forwarders, Carriers, and financial institutions in member states
- ▶ application ASYCUDA
- ▶ liabilities covered and excluded
- ▶ appeals and disputes systems
- ▶ penalties /fines
- ▶ delays in acquittal /cancellation of bonds
- ▶ record-keeping
- ▶ fraud and forgers of bonds
- ▶ malpractices
- ▶ implication of the introduction of RCTG in the stakeholders business
- ▶ capacity of financial institutions in managing the RCTG scheme

# Institutional Structure



## Transactions Covered by RCTG

- ▶ Removal to/or from a warehouse
- ▶ Exportations from a warehouse
- ▶ Transshipment and transit operations
- ▶ Delivery and loading prior to entry
- ▶ Removal of imported goods between coasts
- ▶ Temporary goods

# RCTG Legal and Technical Instruments

- ▶ COMESA Customs Bond Guarantee Agreement;
- ▶ Inter-Surety for the Implementation of the Customs Bond Guarantee Agreement;
- ▶ COMESA Transit Facilitation Instruments, namely:  
COMESA CD, Carriers License and approval of means of Transport;
- ▶ Reinsurance Pool constitution;
- ▶ Operations Manual on RCTG

# Obligations & Functions of Principal and Subsidiary Participants

- ▶ Government
- ▶ National Customs Administration
- ▶ Financial institutions:
  - Council of Surety
  - National Surety
  - Primary Surety

# Obligations & Functions of Principal and Subsidiary Participants

## ► Government

- As the principal contracting party to the COMESA Customs Bond Agreement, the government has the following duties:
  - to sign and ratify the Agreement;
  - to recognize the validity of the RCTG in its customs territory, and promulgate laws and regulation to that effect;
  - to facilitate the establishment of the National Surety;
  - to permit the transfer of funds for reimbursement of claims/liability payments to other National Sureties,
  - to ensure the smooth operations of National Surety and the RCTG in its country.

# Obligations & Functions of Principal and Subsidiary Participants

## ► Customs Administration

- In addition to enforcing the national customs legislation, and collection of duties and taxes, customs has the following RCTG role:

- **Central Guarantee Office**

- Vet and approve insurance and financial institutions to issue transit guarantees (approval of guarantors);
- Circulate the list of the approved guarantors (primary sureties) in its country to other CA of member states;
- Examine and approve Customs guarantees presented during the transit process;
- Issue Certificate of Guarantee.

# Obligations & Functions of Principal and Subsidiary Participants

## ► Customs Administration

### • **Border Post Offices**

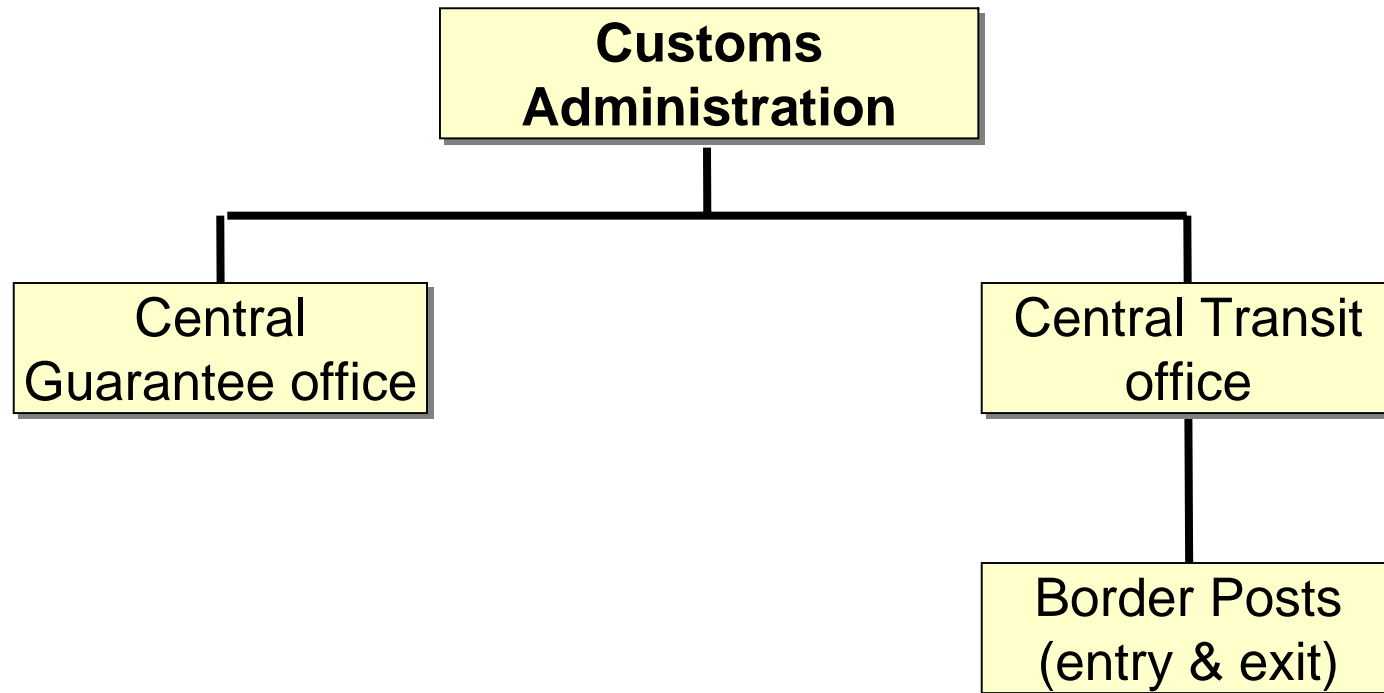
- Check validity of guarantee documentation and the CD presented as evidence of compliance with transit procedures
- Confirm security of transited goods

### • **Central Transit office**

- Facilitate the speed of acquittal
- Coordinate the termination of the transit process with other national customs administrations
- Collect information, maintain transit process records, and analyse activities to organize reliable statistics



# Customs Administration



# Obligations & Functions of Principal and Subsidiary Participants

## ► Financial Institutions

- The Chain of Surety is administered through the following key entities:
  - Council of Surety
  - National Surety
  - Primary Surety

# Obligations & Functions of Principal and Subsidiary Participants

## ► Financial Institutions

### • **Council of Surety**

- Coordinate, supervise and oversees the whole RCTG financial arrangements, as well as, operations of the National Sureties and Transit Guarantee Finance Pool
- Execute the terms and conditions of the Inter-Surety Agreement;
- Admit new National Surety members;
- Settle dispute between members;
- Establish its own annual budget and fix annual contribution by members; and
- Initiate changes or amendment to the System to improve the functions of the RCTG operations.

# Obligations & Functions of Principal and Subsidiary Participants

## ► Financial Institutions

### • Council of Surety

#### ▪ Technical Committee

- Provide technical, legal and operations advice to the Council of Surety on the management of the Chain of Surety, the Transit Guarantee Pool, and overall System

#### ▪ Transit Guarantee Pool -- A financial arrangement designed to provide the following services:

- Reinsurance protection to guarantors/primary sureties;
- Clearinghouse services for transfer of fund between National Sureties;
- Guarantee for the insolvency and performance of the financial institutions involved in RCTG; and
- Security for the Customs Administration and the overall scheme.

# Obligations & Functions of Principal and Subsidiary Participants

## ► Financial Institutions

### • **National Surety**

- Administer and manage the operations of the RCTG in its country;
- Issue Certificate of Guarantee to member Primary Sureties;
- Set premium rates for the national market;
- Reimburse National Sureties that settle claims on behalf of its members;
- Handle and settle claims on guarantees issued in the jurisdiction of another National Surety;
- Contribute to the annual budget of the Council of Surety;
- Join the Council of Bureau

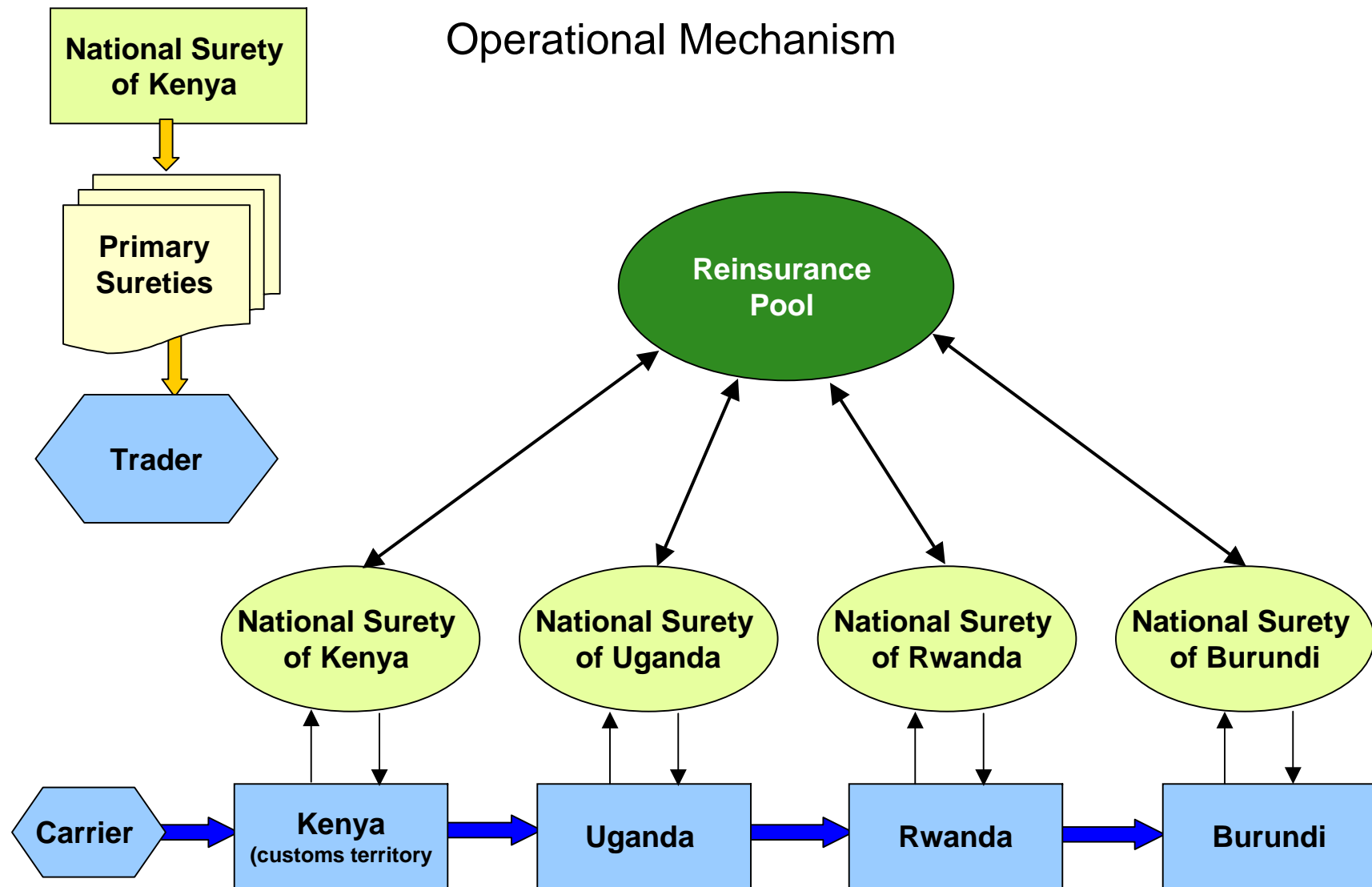
# Obligations & Functions of Principal and Subsidiary Participants

## ► Financial Institutions

### • **Primary Surety**

- Issue guarantee to clients
- Reimburse claims/liability settlement to other National Surety on guarantees it has issued;
- Contribute to the operation expenses of the National and Council of Sureties;
- Implement the guidelines and decisions of the Council and National Surety.

## Operational Mechanism



# How RCTG Operates

- ▶ Compliance with transit trade and transit facilities requirements
  - Carriers licensing (issued by vehicle licensing authority for resident /established road carriers);
  - Approval of means of transport (issued by Customs Authorities in conformity with technical specification);
  - COMESA Transit Document (COMESA Customs Document);



# How RCTG Operates

- ▶ Guarantees issued by Primary Surety
  - Guarantee is lodged with Customs Authorities;
  - Customs approve the Guarantee;
  - Customs issue Certificate of Guarantee;
  - Transit operators present the Certificate of Guarantee at the port of entry and exit
  - Customs endorses guarantee documentation -- tearing out the foils and retaining the counterfoils as evidence of completion of transit process
    - There are two foils for each country
    - Receipt of both tear outs by the Customs Central Transit Office is evidence of completion of the transit movement.

# How RCTG Operates

- ▶ National Sureties facilitate relinquishment of guarantees or settlement of claims for duties and taxes due
  - Goods in transit traversed without breaching the customs law of the territory shall be acquitted
  - With transit irregularities, Customs initiates a claim against the guarantee for payment by the National Surety on behalf of the guarantor operating under another National Surety
  - National Surety initiates an investigation, including review of counterfoils retained by the carrier/driver until completion of transit to confirm validity or non-validity of the claim
  - National Surety receives reimbursement for claims settled on behalf of another Surety

# Consultation, and Building Consensus & Ownership

- ▶ The modalities for RCTG implementation was considered in the following meetings:
  - Stakeholders Workshop on RCBG, Malawi: 26 to 27 April, 2002
  - Stakeholders Workshop on RCBG, Kenya: 2 to 3 May, 2002
  - COMESA Trade Regime Awareness Workshops
    - Rwanda, 7 to 8 May 2002
    - Burundi, 10 to 11 May 2002
    - DR Congo, 12 to 13 May 2002
  - First meeting of COMESA Heads of Customs Administrations, Zimbabwe: 17 to 19 June, 2002
  - 16th Meeting of the Council of Bureaux, Uganda: 26 to 27 September 2002
  - Meeting of Technical Experts on the RCTG, Zimbabwe: 16 to 19 October, 2002

# Consultation, and Building Consensus & Ownership

- ▶ Outcome of Workshops and Meetings
  - The modalities have been overwhelming accepted
  - The valuable technical input has contributed to refinement of the system
  - Stakeholders have requested immediate implementation of the Scheme

# RCTG Advantages and Benefits

- ▶ Provide adequate security to Customs Authorities;
- ▶ Reduce the cost of raising transit guarantee (e.g. reduce cost of freight by 25% to 30% in the northern corridor);
- ▶ Eliminate delay and inconvenience;
- ▶ Release huge sums of money tied up as collateral for other investment (1.2 billion tied up as collateral);
- ▶ Increase efficiency in inter-state transport between member states;
- ▶ Enhance trade between member states.

# Recommendations

- ▶ The Trade and Customs Committee is requested to review the progress made in the implementation of the RCTG and consider the recommendations from stakeholder workshops and Technical Expert Meetings.

# Recommendations

- Endorse the Technical Committee on RCTG nominated by the Experts Meeting (Victoria Falls - 16 to 18 October, 2002) to direct the establishment of the Chain of Surety and oversee the launching and commencement of operations of the scheme
  - Zambia Revenue Authority;
  - Namibia Ministry of Finance, Customs and Excise;
  - Bankers Association of Kenya;
  - Bankers Association of Zimbabwe;
  - The National Insurance Corporation of Eritrea;
  - National Insurance Corporation of Uganda;
  - The PTA Reinsurance Company (ZEP-RE); and
  - Transit Transport Coordinating Authority-Northern Corridor (TTCA)

# Recommendations

- To adopt the Terms of Reference of the Technical Committee on the RCTG
- To recommend to Council of Ministers that:
  - Member states that have not ratified the Customs Guarantee Bond Agreement should ratify the Agreement at the earliest possible time -- preferably before the end of 2002; and
  - Member states that have ratified the Agreement should facilitate the designation of National Surety, and the signing of the Inter-Surety Agreement for the implementation of the RCTG System.



---

## **Appendix C: RCTG System Design: Carriers Workshop**

---

# **RCTG SYSTEM TECHNICAL EXPERTS WORKSHOP**

## ***RCTG SYSTEM DESIGN: CARRIERS***



# RCTG System Design:Carriers

## ► Carrier Procedures

### – Preconditions for carrier participation:

- Carrier must be approved and licensed
- Transport equipment and containers must be approved and licensed and must be able to be sealed securely by Customs

### – Transport of Heavy or Bulky Goods or Break Bulk Cargo

- Heavy or bulky goods may be carried under RCTG procedures without seals if the Customs office of departure approves
- Break bulk cargo may be transported under separate RCTGs and CTDs if it can be separated and secured by separate seals

# RCTG System Design: Carriers

## ► Carrier Procedures (continued)

1. Carrier receives CTD and RCTG from Principal (customer)
2. Office of Departure
  - Carrier presents CTD, RCTG, licenses for carrier and equipment to Customs
  - Customs:
    - Inspects documents, licenses and equipment
    - Inspects goods
    - Notes itinerary

# RCTG System Design: Carriers

- ▶ Carrier Procedures (continued)
  - Office of Departure (continued)
    - Customs (continued):
      - Retains RCTG foil
      - Retains CTD copy
      - Seals cargo
      - Stamps counterfoil and endorses CTD

# RCTG System: Carriers

## ► Carrier Procedure (continued)

### – Procedure in Transit

- Customs:

- Inspects transit equipment, containers and seals
- Inspects and retains copy of CTD
- Inspects and retains RCTG foil
- Stamps RCTG counterfoil

# RCTG System: Carriers

## ► Carrier Procedure (continued)

- Procedure at Office of Destination
  - Customs:
    - Final RCTG foil removed
    - Final RCTG counterfoil stamped
    - CTD endorsed and retained
    - Customs seals removed
    - Goods inspected, discrepancies noted
    - Duty and tax paid

# RCTG System: Carriers

## ► Carrier Procedure (continued)

### – Post Transit Procedures

- Carrier returns stamped counterfoils and copy of endorsed CTD to Principal who forwards them to Primary Surety
- Carrier has control of goods in transit and is legally liable for diversion of goods into a local market or other irregularities
  - Liability is joint and several with Principal and Primary Surety